



June 15, 2004

Ms. Elizabeth O'Donnell  
Executive Director  
Public Service Commission  
211 Sower Boulevard  
Frankfort, KY 40602

**RECEIVED**

JUN 16 2004

PUBLIC SERVICE  
COMMISSION

Via: Telefax: 502-564-3460

Re: Case No. 2003-00030

Dear Ms. O'Donnell:

This letter provides additional information for the Public Service Commission with respect to work in progress to complete the Kentucky Pioneer Energy IGCC Powerstation. The Kentucky Pioneer Energy IGCC Project Team has worked diligently for more than five years, and made a multi-million dollar investment, to deliver this Ultra Clean High Tech IGCC facility to the Commonwealth of Kentucky. This work included the 33-month effort to successfully complete a full Environmental Impact Statement and ultimately qualify for \$60 million in Federal funding from the U.S. Department of Energy under the Clean Coal V Program. This is a high honor for the project and the Commonwealth of Kentucky to have this substantial Federal support.

During the course of the project development, a number of important environmental, economic, and national security factors have significantly increased the need for IGCC Powerstations in the U.S.. Gas prices have more than doubled, rendering efficient and clean gas turbines uneconomic. IGCC Technology enables the clean, closed system conversion of coal to low cost synthetic gas for use as a fuel in gas turbines. The Kentucky IGCC project will produce synthetic gas at less than half the price of today's pipeline gas. This results in the Ultra Clean High Tech use of Kentucky Coal to produce low cost electricity for EKPC and ultimately the Kentucky ratepayers.

We are pleased to report that the Kentucky IGCC will run on 100% Kentucky Coal and will be the World's Cleanest Coal based powerstation. Furthermore, the Kentucky IGCC will have the highest efficiency and the lowest cost power for any new generation unit in the Commonwealth of Kentucky. Delivering top environmental, economic and efficiency results are the prime objectives of the Kentucky IGCC, whose Leadership in each of these categories surpasses that of all new generation in Kentucky including the Gilbert facility.



The Kentucky Pioneer Energy IGCC project opens new economic development opportunities for Kentucky as both low cost clean electricity and low cost clean synthetic gas may be produced from Kentucky Coal and exported to fill market demand. As IGCC Technology facilities spread across America, a greater demand for Kentucky Coal will follow. In addition, the same low cost synthetic gas produced from Kentucky Coal can be used to produce low cost ultra clean transportation fuel and hydrogen. IGCC Technology will improve National Energy Security by reducing the need for imported gas and oil and increasing the clean and efficient use of our most important energy resource, coal.

EKPC has informed us that due to a positive addition to their membership, their power needs have increased by at least 500MW baseload and that it will be important for our project to be in construction by the end of August 2004 in order to assure needed power delivery by April 2008. We are pleased to see our customers business and baseload requirements growing and certainly feel this is a positive reflection of the top quality management and organization at EKPC.

EKPC further informs us that in order to absolutely ensure power delivery by April 2008, they would need a \$150 million security in place. EKPC indicated that this amount reflected an estimate of our low cost power price vs. the forecasted market. This represents a \$30 million savings per year or \$150 million in five years that the Kentucky IGCC will save ratepayers vs. market alternatives. Considering that our Power Purchase Agreement with EKPC is a 20-year contract; the total contract savings vs. the market may be 4 x \$150 million or \$600 million in savings to Kentucky ratepayers. We expect that Kentucky will benefit from these huge savings while further benefiting from top environmental and efficiency results.

Currently, the Kentucky Pioneer Energy IGCC project is working with EKPC to complete a brief amendment to the PPA, confirming commercial operations date, 100% Coal pricing, and security provisions. Meanwhile, the project is making all preparations to achieve a commitment to start construction by the end of August 2004 and achieve commercial operations by April 2008 in response to our customer's needs.

We trust that this additional information will be helpful to you as you conclude the Gilbert matter before you. As we have previously stated, we supported the Gilbert project when EKPC asked us to do so in order that they could secure 250MW of baseload power on a schedule that was earlier than could be delivered by the Kentucky IGCC project due to the Federal EIS/funding delays. We supported Gilbert because our customer asked us to do so, even though we knew that it would not be able to achieve the high standards of environmental, economic, and efficiency standards available from the Kentucky IGCC. Now with an increase of 500MW+ in baseload needs at EKPC due to demand growth in their system; the time is now to bring the Kentucky Pioneer Energy IGCC project through to completion and commercial operations.



Kentucky is one of two states in the U.S. with the foresight and vision to have a Permit to Construct in place for a state of the art IGCC Technology facility. \$60 million in U.S. Department of Energy funding will help ensure project success. Over the next three years of construction, peak labor will reach 1000 jobs with \$110 million in direct/indirect economic impact. The economic value of an expanded market for Kentucky Coal will be broad and far-reaching. The Public Health benefits delivered to citizens from the world's cleanest coal based powerstation will be "priceless".

Thank you for your support of the Kentucky Pioneer Energy IGCC project.

Best Regards,

A handwritten signature in black ink, appearing to read "H.H. Graves".

HH Graves  
President & CEO